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ABSTRACT

Strategies for reallocation of resources that were used by five public colleges are discussed. Attention is directed to the efforts of institutions that are under severe political, economic, and time pressure. At each of the following schools that were visited, meetings were held with key administrators, faculty members, and students: the University of Washington, the University of Idaho, the University of Michigan, Michigan State University, and the Seattle Community College District. Some of the internal and external factors that affect the way an institution approaches reallocation are discussed, including: duration of the fiscal crisis, degree of management flexibility available to the institution, diversification of institutional revenue sources, historical level of recurring program support, and ability of the institution's administration to communicate with all of the institution's constituent groups. Important elements that must be considered in developing an effective reallocation process are also addressed: faculty and constituent involvement in reallocation, assessment of institutional role and mission, quality of academic and support programs, and long-term versus short-term costs and benefits associated with reallocation. (SW)

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Effective Strategies for Reallocation

by JAMES A. HYATT

Colleges and universities currently face the challenge of providing quality programs at reduced levels of local, state, and federal support. In responding to this challenge, institutions have engaged in a number of strategies ranging from across-the-board program reductions to reallocation processes that attempt to safeguard the long-term integrity and vitality of the institution.

In undertaking reallocation, institutions are frequently unaware of how other colleges or universities have addressed the problem; yet, this information is essential if institutions are to approach reallocation effectively. To meet the need for information, NACUBO conducted a study of reallocation processes at five public colleges and universities: the University of Washington; the University of Idaho; the University of Michigan; Michigan State University; and the Seattle Community College District. These institutions are located in three of the states that have been hit hardest by revenue shortfalls. As a result, the NACUBO study highlights the efforts of institutions that are under severe political, economic, and time pressure.

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At each institution visited, project staff met with key administrators in both academic and support areas, as well as with faculty members and students who had been involved in retrenchment and reallocation activities.

The initial intent of the NACUBO study was to examine the effects of revenue reductions and to document ways in which these institutions had responded to fiscal stress. In this regard, the study focused on retrenchment, or on how institutions reduced expenditures and curtailed operations. In visiting each institution, however, project staff noted that while retrenchment was common during the initial reductions, the long-term approach was based on reallocation, defined as "a process that redistributes resources according to a plan." The focus of this article has therefore been expanded to include the broader process of reallocation, which is more critical to continued viability of institutions under stress.

Determining Approaches To Reallocation

The manner in which an institution approaches reallocation is determined by various internal and external factors. Among these are:

1. Duration of the fiscal crisis;
2. Degree of management flexibility available to the institution;
3. Diversification of institutional revenue sources;
4. Historical level of recurring program support; and
5. Ability of the institution's administration to communicate with all of the institution's constituent groups.

Duration of the Fiscal Crisis. An institution's response to fiscal stress is often determined by duration of the fiscal crisis. In particular, three factors that shape this response are: (1) the short- or long-term nature of the crisis; (2) timing of budget reductions; and (3) the institution's state of preparedness.

1. *Short- versus long-term crisis.* When initially faced with a reduction, an institution normally assesses the duration of the crisis. If the situation appears to be for a short term, across-the-board reductions usually are instituted in all programs. Such actions include: (a) reduction or deferral of support services, such as plant operation and maintenance; (b) travel freezes; (c) deferral of equipment purchases; and (d) hiring freezes.

If the fiscal crisis worsens, a mixture of across-the-board and selective program reductions is implemented. The largest reductions are normally made in noninstructional areas and in academic programs not central to the main instructional and/or research purposes of the institution, e.g., certain public services and ancillary activities. In addition, where possible there is an attempt to make activities self-supporting, such

as public radio and television operations, continuing education programs, and certain institutional services. If possible, tuition and fees are raised to generate additional revenue. As hope of an early solution to the fiscal crisis diminishes, institutions implement major program reductions. At the University of Washington, the University of Michigan, and Michigan State University, these reductions were targeted through an institutionwide program review process in which the focus was not only budget reduction but also resource reallocation.

2. *Timing of budget reductions.* Frequently, budget reductions occur during the academic year. Both Michigan State University and the University of Michigan were well into the fiscal year when they received an appropriation that was significantly below budgeted levels. In order to respond, these institutions implemented a number of one-time measures. Michigan State, for example, imposed a $20 registration fee surcharge for the winter and spring terms and laid off all but essential personnel for two and one-half days. In addition, many special projects were deferred.

The effect of midperiod budget reductions is often magnified since a 5 percent reduction in midyear usually represents a 10 percent or more reduction in remaining unexpended funds. In addition, far fewer options are available for reducing expenditures if a budget cut occurs during the academic year. Since colleges and universities are labor-intensive, budgets are difficult to alter on a short-term basis. Contracts with students and faculty, for example, must be honored. As a result, it has been estimated that less than half of an institution's projected expenditures are subject to reduction once a fiscal year has started.

3. *State of preparedness.* A state of preparedness exists at an institution if one or more of the following actions have been taken prior to the fiscal crisis. First, contingency funds have been established to temporarily deal with revenue shortfalls. In the words of Harold Shapiro, president of the University of Michigan, this means "the conventional and prudent practice of maintaining sufficient financial liquidity so that if revenues fall, or expenditures increase unexpectedly, monies can be found to fill the gap." Second, efforts have been made to reduce ongoing contractual commitments with faculty and staff. In this regard, Michigan State University's special retirement options and intra-university transfers represent an excellent approach. Third, a state of preparedness exists when reviews of an institution's role, mission, and programs are part of an ongoing management process. Review processes, such as the University of Washington's University Review Process, enable administrators to make informed and responsible reallocation decisions and to identify areas in which long-term reductions or reallocations may be necessary. Adequate data bases are thus essential to sound institutional planning and review.

Financial Management Flexibility. Flexibility is another critical element in determining the response to fiscal stress. The ability to carry forward funds from one fiscal year to the next, for example, allows an institution to build reserves gradually and systematically and to be in a better position to respond to fiscal crisis. The ability to establish reserves, however, should be exercised carefully since the existence of such reserves may provide an excellent rationale for further reductions in state support of a public institution's base budget.

Another aspect of financial flexibility is the ability to transfer funds among budgetary units and between expenditure categories. The University of Idaho, for example, found that such flexibility enabled it to respond more effectively to budget reductions and permitted it to minimize the impact of reductions on key areas of the institution such as libraries and student services. It should also be noted that benefits derived from such actions can be increased if flexibility is applied not only centrally but also at college and departmental levels.

Some of the institutions studied, Michigan State University in particular, have made judicious use of cash management techniques in responding to budget reductions. Position control systems and central capture of salaries from vacant faculty and staff positions are two methods of obtaining funds to offset revenue shortfalls. Some institutions have also achieved cost reductions by consolidating or merging existing offices or programs.

Cost saving can also be achieved by investing funds in the upgrading of management processes and procedures. The University of Idaho, for example, has improved its internal budget management procedures through innovative use of computer technology. Similarly, Seattle Community College District has made effective use of an automated library reference system—the Washington Library Network—to improve library operation.

Diversification of Revenue Sources. A diversification of revenue sources is helpful in avoiding major dislocations caused by drastic funding reductions. Because of the diversity and composition of its funding sources, the University of Michigan, for example, has had more flexibility in responding to budget reductions than institutions that are totally dependent on state appropriations. In addition, the ability of a college or university to set tuition and fee levels provides it with the option of partially offsetting losses in state support by increasing tuition and fee revenues. This option was available to the University of Michigan and Michigan State University but not to the University of Washington or the University of Idaho, whose tuition levels are set at the state level.

In order to diversify their revenue sources, certain institutions increased their development activities. At Michigan State, for example, the commitment of funds to a number of small capital campaigns enabled the university to raise $9 million. In addition, other institutions, such as the University of Michigan and the Seattle Community College District, are seeking to strengthen their ties with business and industry.

Historical Level of Recurring Program Support. An institution's historical level of recurring program support is a major factor in determining its approach to retrenchment or reallocation. New institutions or those with a recent history of budget reductions have fewer financial options in responding to retrenchment. Michigan State, for example, grew

rapidly during the 1960s and 1970s. In the process it greatly expanded the scope and depth of its program offerings by adding departments, colleges, and professional schools. By the 1980s, however, state support for higher education had declined. In approaching reallocation the Board of Trustees thus noted:

> The one option we do not have is to recommend minimal changes or no changes.... [T]he decision problem we face is radically different. Our decision problem is which programs should be sustained and which should be curtailed or eliminated. Michigan State cannot be all things to all people. In fact, the University is not funded at a level which will allow it to continue all its current programs.

In recognition of this fact, the reallocation process at Michigan State has been guided by a fundamental consideration: all programs and activities must be examined in terms of their centrality to the university's role and mission.

Effective Communication with Constituent Groups. A final factor that influences the reallocation process is the administration's ability to communicate with all institutional constituents. An adequate dialogue should be maintained not only with students, faculty, and staff, but also with alumni, the general public, and leaders in business and industry. It is essential that these groups be informed of reasons for reallocation and know the options available to them. Administrators should pursue a middle course between dramatic predictions of doom and a low-key approach that understates the real impact of reductions. As evidenced by the experience of the institutions studied, informed faculty, staff, and students help to insure the success of the reallocation process.

Developing a Reallocation Process

Important elements that must be considered in developing an effective reallocation process include:

1. Faculty and constituent involvement in reallocation;
2. Assessment of institutional role and mission;
3. Quality of academic and support programs; and
4. Long-term versus short-term costs and benefits associated with reallocation.

Faculty and Constituent Involvement in the Reallocation Process. To be successful, the reallocation process should have the active involvement of faculty, students, and other constituent groups. At a majority of the institutions studied, a steering committee composed of senior administrators, faculty, and students was established to guide the reallocation process. At the University of Michigan, this body was the Budget Priorities Committee; at the University of Washington, an ad hoc planning group that included the provost, the vice president for health sciences, the dean and associate dean of the graduate school, the dean of the College of Arts and Sciences, and the chairman of the Faculty Senate's Council on Planning and Priorities.

Most of the institutions visited found that level and quality of communication among all staff improved during the reallocation process. Once the need and rationale for reallocation were explained, faculty and staff, and particularly academic and financial administrators, cooperated to make the process work.

Assessment of Institutional Role and Mission. A thorough understanding of an institution's role and mission is the foundation on which a successful reallocation process must be built. A program review process that is conducted within the context of institutional role and mission helps to identify high priority areas and those in which programs should be reduced or eliminated and resources reallocated. In 1983, for example, administrators at Michigan State University declared:

> Maintaining academic excellence in the midst of changing financial conditions demands a constant attention to the university's mission and goals, and requires a continuous process of universitywide strategic planning.

The University of Michigan referred to its role and mission statement in identifying six programmatic (rather than organizational) areas as beneficiaries of the reallocation process:

1. Salaries for faculty and staff;
2. The research area, including generating better incentives for research;
3. Undergraduate teaching and incentives for better teaching;
4. An improved level of merit-based support for graduate students;
5. Funds to regenerate the budget's capacity to respond to new intellectual developments and social needs and to provide for selected program growth and development; and
6. An improved level of support for instructional and research equipment and renovation of physical facilities.

Quality of Academic and Support Programs. A concern for maintaining or enhancing institutional quality underlies most reallocation plans. While measuring quality remains a difficult task, program reviews combined with input from other sources, such as accreditation reports, help to identify strong and weak areas of an institution. At the University of Washington, for example, the quality of faculty and of graduate programs has been a major concern. Salary merit pools continue to be used for their intended purpose, in the belief that high-quality faculty must be rewarded. Also, no reductions have been made in the graduate research fund.

Assessment of Short- and Long-Term Costs and Benefits of Reallocation Decisions. In developing reallocation processes, administrators must be sensitive to both the short- and long-term implications of their actions.

1. *Reduction in support units.* While support areas are often among the first targets for retrenchment or reallocation, reductions in these areas can have negative long-term effects on an institution. For example, an institution's inability to comply with state reporting or audit requirements can adversely affect the institution's reputation with the state and other funding sources. Loss of institutional credibility may mean that funds allocated to the institution may be further reduced. Similarly, reductions in student services can impair an institution's ability to attract and retain quality students, faculty,

and staff. Quality of instruction and research programs can also be adversely affected by inadequate support.

In considering reductions in the support area, administrators should be aware that false economies may result when reductions in departmental support produce increased demand for central support services, such as accounting and purchasing.

2. *Deferring equipment purchases.* Deferral of equipment purchases can provide some relief from short-term budget reductions. In the long run, however, inadequate funding of equipment can lead to serious erosion of the capacity and quality of instruction and research programs. Inadequate facilities and equipment can also impair the institution's ability to attract research grants and contracts.

3. *Reductions in library services.* Availability of adequate library services is critical to the instructional and/or research mission of an institution. Reductions in the breadth and diversity of a library's collections, in its hours of operation, and in its range of services can seriously impair the institution's ability to provide adequate support to instructional and research programs and its ability to attract and retain well-qualified students, faculty, and staff. Thus, what appears to be a short-term solution to budget cuts can result in major long-term problems.

4. *Deferral of plant maintenance.* Deferring plant maintenance can have long-term implications for the institution's academic programs. If programs cannot be adequately housed or if library collections and research equipment cannot be adequately protected, the institution runs the risk of undermining its instructional and research capacity. In addition, deteriorating facilities and equipment expose the institution to potential legal liabilities resulting from accidents and/or injuries. It is important to note that these liabilities could possibly offset the savings from cost reductions in this area.

Conclusion

A fundamental question emerges from the previous discussion: are institutions improved by going through retrenchment and/or reallocation? In terms of reallocation, the experience of the institutions studied is generally positive. A planning document from the University of Washington, for example, states:

> A university can contract in size and scope without losing its claim to excellence. If choices facing it are made well, based on carefully developed plans, excellence need not suffer. Some activities of the university may be reduced in scope; others may be eliminated as the university carefully restricts its range of offerings. The result, it is hoped, will be an institution of excellence ready to meet the challenges of the next century on a stable and predictable financial foundation.

Other institutions currently involved in reallocation have found that this process has improved faculty and staff understanding of the institution's role and mission and has helped in setting institutional priorities. Reallocation has also prompted an in-depth discussion of the long- and short-term implications of alternative reallocation decisions.

It is imperative that administrators understand the process of resource reallocation and be aware of alternative processes for implementation. If colleges and universities are to meet the challenges facing them in the years ahead, reallocation must become an integral part of institutional management. ◆

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